BYE-BYE BILLBOARDS 46 CHEF SALARIES 62 EUROPE'S PROMISE 70

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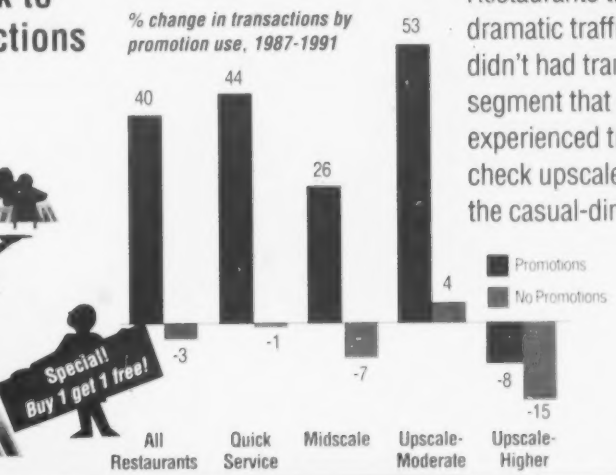
busted

The straight dope on drug trafficking in America's restaurants 90

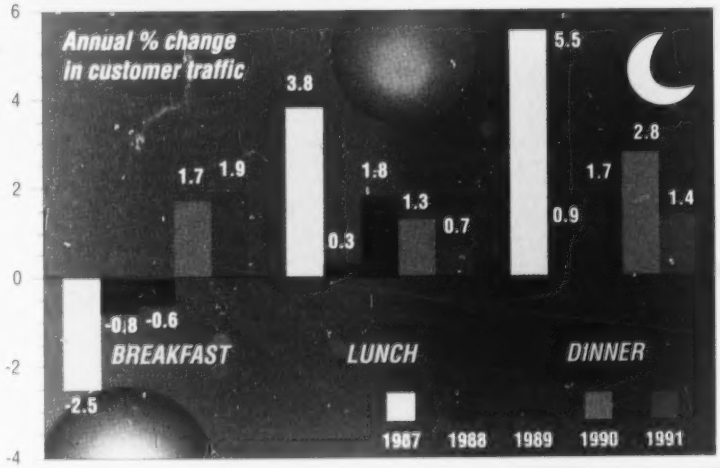
BUSINESS BAROMETER

Promotions Work to Increase Transactions



Restaurants that used promotions showed dramatic traffic increases while those that didn't had transaction declines. Only one segment that didn't use promotions experienced traffic growth: the moderate-check upscale sector, which includes the casual-dining chains.

Source: National Restaurant Association, NPD/CREST



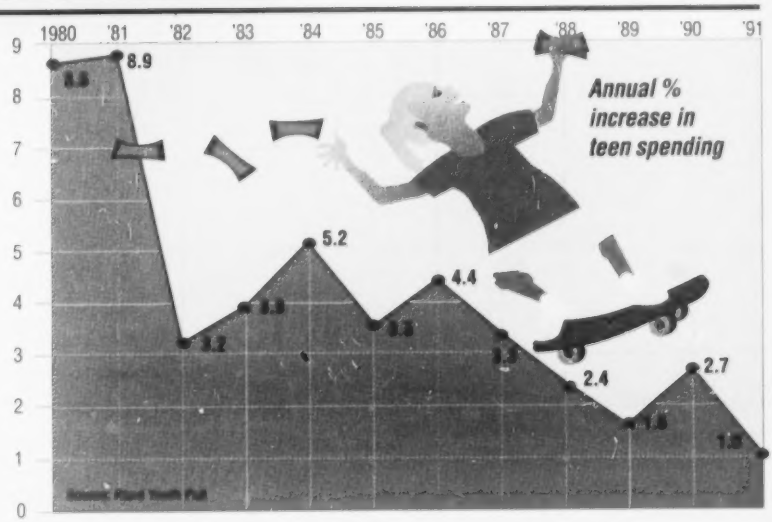
Dinner Biggest Segment, But Growth in Traffic Slowed

Lunch and dinner segment gains in customer traffic slowed in 1991 because of the economic downturn. Breakfast, however, edged up slightly. Dinner accounts for the largest share of restaurant traffic, about 41% of total industry traffic.

Source: National Restaurant Association, NPD/CREST

Teen Spending Not What It Used to Be

If you're looking to teenagers to fill your cash registers, better think again. The increase in day-to-day spending by 13- to 19-year-olds in 1991 was the lowest in more than a decade. The total: $58 billion. Spending by girls—typically bigger spenders than boys—accounted for most of the teen increase in 1991.



Charts by Peter K. Niceberg

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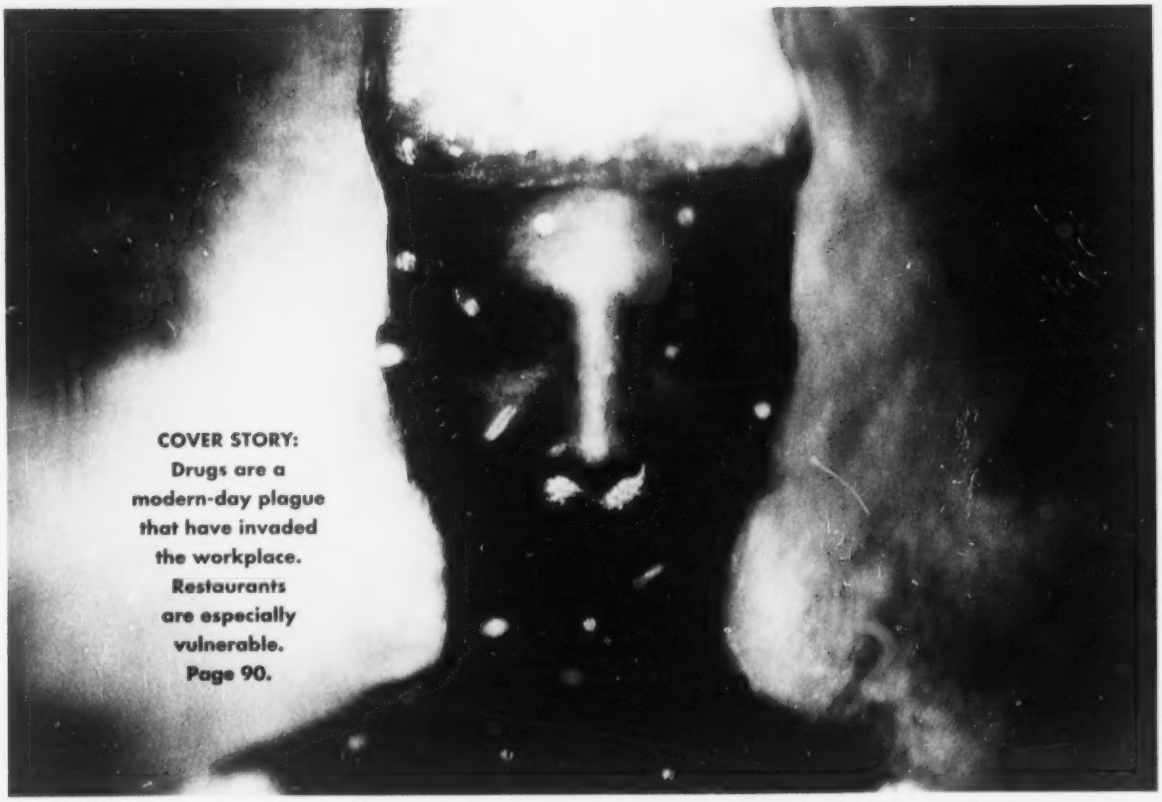

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Drugs are a modern-day plague that have invaded the workplace. Restaurants are especially vulnerable.
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COVER STORY

BUSTED DRUG ABUSE. Every day drugs are abused in and trafficked through restaurants. Employees strung out on marijuana and cocaine have fouled up dinner orders, spilled hot coffee on customers, severed fingers with meat slicers, and pilfered cash to support their habits. Managers have used cash registers to deal illicit wares. Everyone pays the price, but who's to blame?.....90

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Cover Illustration by Matt Mahurin

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WASHINGTON UPDATE RESTAURANT POLITICAL ACTION COMMITTEES. The NRA has its PAC, of course, and large companies like Marriott and PepsiCo have their own. The question is, how effective are they?

MARKET SEGMENT REPORT PIZZA. This segment continues to dominate the industry. Competition is tightening as both national and regional chains vie for a slice of the pie with new products, service strategies, and value menu programs. Other concepts continue to put pizza on their menus, too, adding indirect competition.

MENU IDEAS PASTA. Stick a feather in its cap and call it macaroni: Pasta is popular and profitable. Operators love it for its low food cost and versatility. Customers love it because it is cheap, filling, and most of all, tasty.

DRAFTS, CARAFES PREMIUM BOTTLED WATERS. Are your alcohol sales dipping? Why not sell a refreshing glass of bubbly—water! It's becoming increasingly common for operators to offer a cooling bottle of H_2O, as they find new profit potential in this former giveaway.

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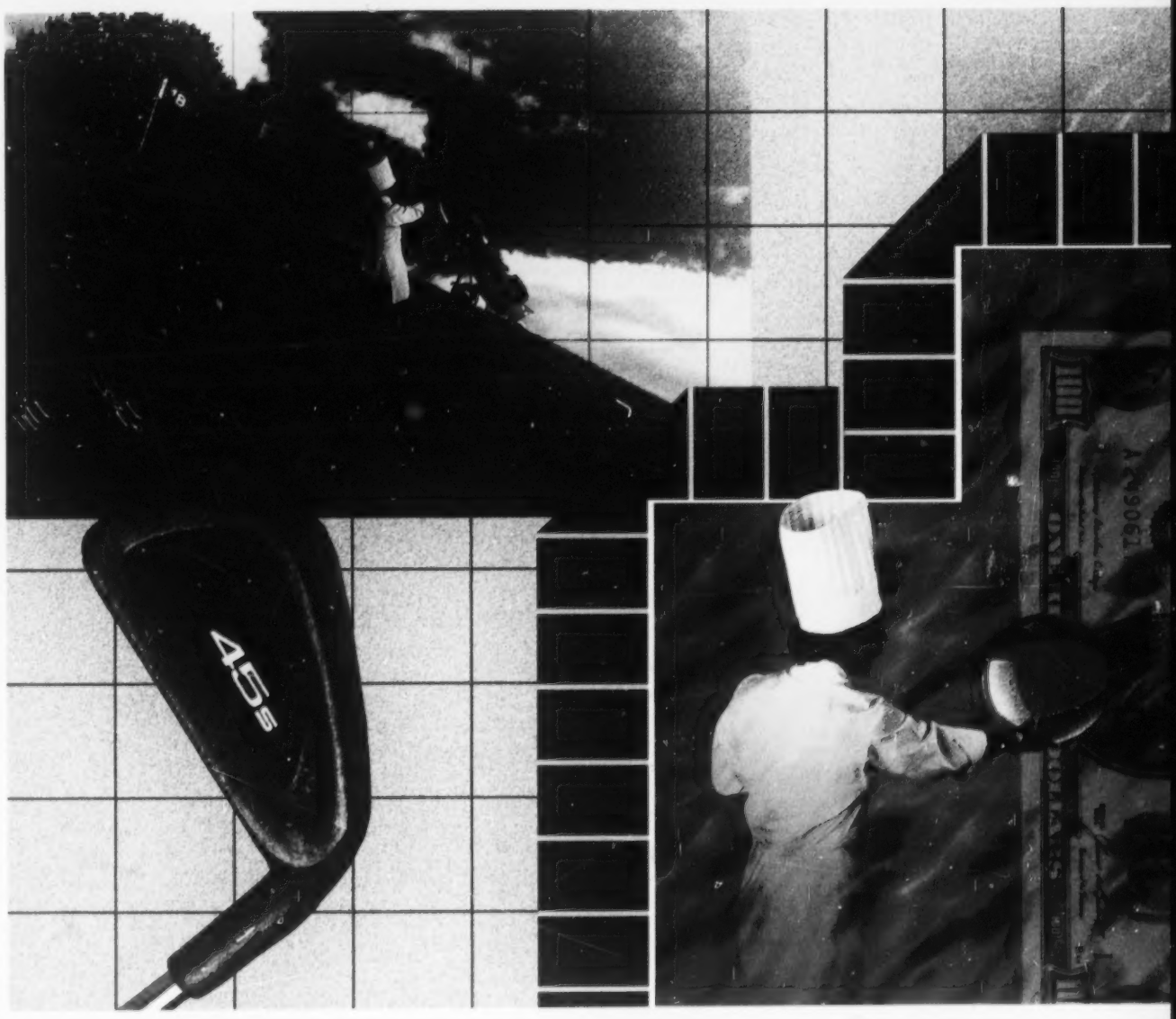


HIGH-PRICED CHEFS AREN'T

Are the stars falling?

With white-tablecloth restaurants lowering prices and trimming costs, some argue that the days of the high-priced star chef are over. Restaurant owners, observers, and chefs themselves are split over the issue, but they do agree on this: Today's star chef isn't making the kind of money he hoped he would, nor are the hundreds of star wannabes commanding the salaries they dreamed of at culinary school.

Salaries at the nation's higher priced restaurants have stabilized or dropped. And compensation today is more likely to include a chunk of equity or piece of the profits than a hefty salary or even a salary hike. That could be a blessing or a curse.

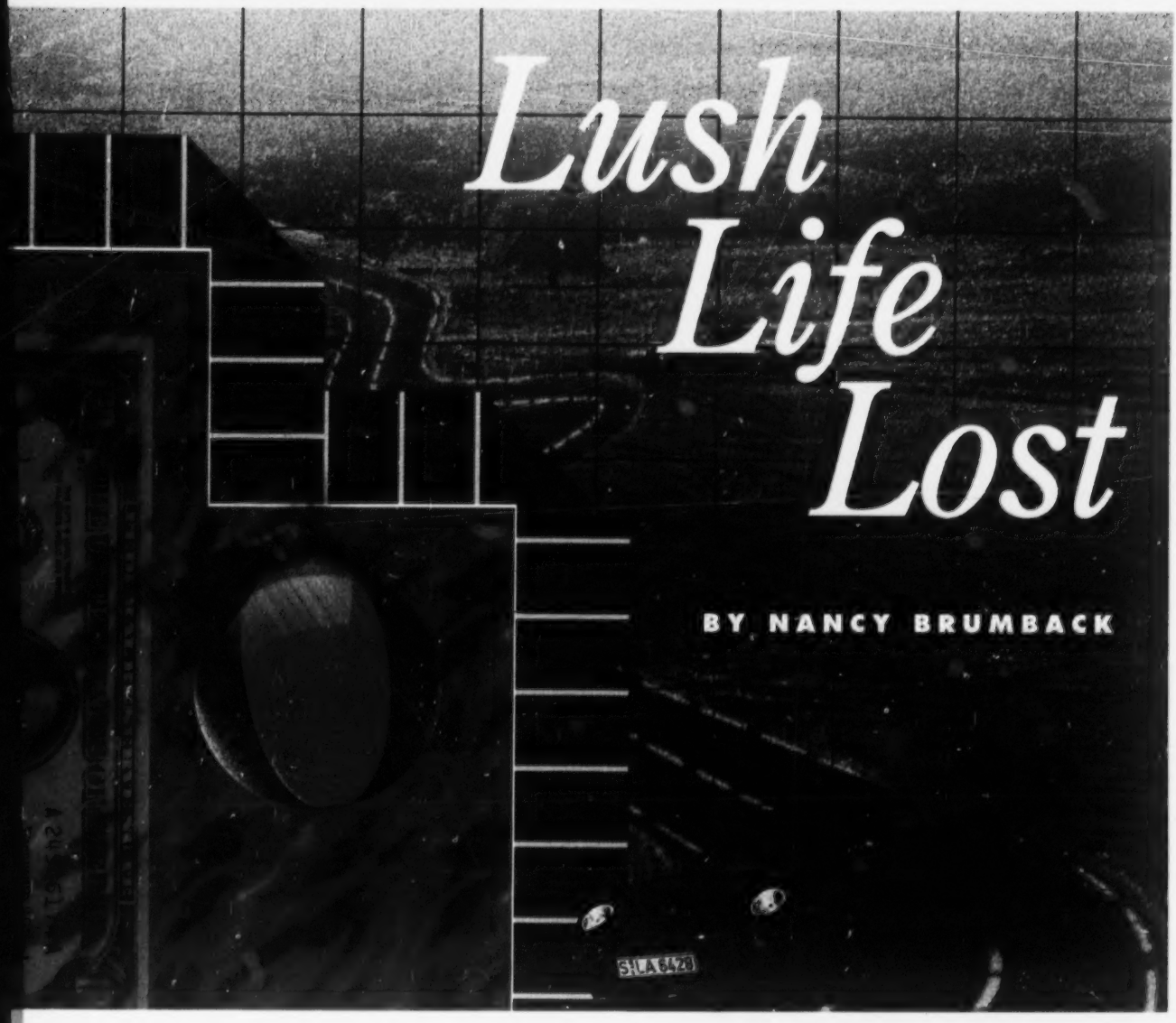
A few top chefs working at a handful of top Manhattan restaurants still command salaries approaching $200,000. But that's a far cry from the $33,600 median compensation for executive chefs in full menu, tableservice restaurants that the National Restaurant Association found in a nationwide survey.

"A chef who's earning $200,000 isn't earning it because of his celebrity status," says Michael Whiteman of New York consulting firm Joseph Baum and Michael Whiteman Co. "He has to earn it by increasing a restaurant's profits to the point where it can afford that salary."

But few can.

"Star chef salaries were pushing $100,000 and they're not any more," says Clark Wolf, another New York consultant. "That salary was not unreasonable against gross sales potential five years ago, but it is now. I know of one chef in New York City who was offered $95,000 but took a different job for $65,000. He said anybody offering $95,000 these days would be out of business in a year."

Michael Trachtenberg of The Cuisine Marines, a



Lush Life Lost

BY NANCY BRUMBACK

MAKING WHAT THEY USED TO

temporary employment agency in Miami, notes salaries in that area are down 15% to 20% across the board. More and more restaurant owners, he says, are offering chefs equity.

"A typical offering for a young chef with four or five years experience is $28,000 to $35,000 and a piece of the action, compared to about $45,000 as a salaried chef," says Trachtenberg. Along with the lower salaries, he sees an emphasis on efficiency in restaurant kitchen design. "Kitchens are being designed to permit a person to do more than one job and reduce the labor costs. A classic French kitchen today is an economic dinosaur."

Those whose compensation packages are tied to profits are also more apt to make a go of things themselves. "More chefs are looking to own their own places," says Wolf. "And when a chef gets to the point where they're taking the profits out of the business, they might as well take the risk too."

But that's not easy. "A lot of chefs would like to move into their own business, but financial backing is harder to get," says Jacques Pelletier of executive search firm Roth/Young, Boston. "There's a lot less money available from backers. The chefs who are doing it on their own tend to be doing it on a smaller scale today."

Uncertain economic times are also making people less prone to switch jobs, adds Pelletier. "Those chefs who have a name aren't moving to another restaurant as fast today," he says. "They're more cautious, considering what the job pays and what the severance package is."

"As more chefs become owners and find out the economics of this business, some wage and salary reality sets in," adds Whiteman.

Michela Larson, owner of Michela's Restaurant, Cambridge, Mass., has implemented a profit-sharing plan for employees across the board. "Our salaries are not increasing anymore," says Larson. "Any increase is dependent on job performance and is tied to profits. You did a good job and this is the money

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ILLUSTRATION BY MARC MUDGE

we made and this is your share. It's very difficult to get people to do a good job and control costs."

Somewhat to her surprise, the system works. "I always thought the theory was interesting. But we've found when we make a real commitment to it, it does work."

Wolf notes that, while entree prices are going down, prices for lesser dishes may be rising to help cover costs, among them additional support staffs. "The chef's base salary is going down," he says. "But, for some key support positions, salaries are up and chefs are getting more support."

Restaurants and hotels are diversifying into catering, banquets, and private brands. Some are opening satellites, such as a cafe in a theater, or second and third restaurants.

"A chef might get a nice pop in his salary for overseeing these additional locations," notes Wolf. "Today, restaurateurs who are well known for successful operations are creating alliances with their chefs rather than hiring employees." A chef can start with a 3% to 5% share and go as high as 30%, he says.

Then, of course, there's that other breed of culinarian: the celebrity chef. Those arguing in favor of the celebrity chef's continued importance cite Americans' star-struck nature and a restaurant owner's need for a brand identity. Those who say the celebrity chef's day is past note owners' feelings of being "held hostage" to those who've attained star status. Customers pay for the higher salaries in higher prices—something they're less willing to do nowadays. Owners can pay with lower profits.

Still, celebrities have their supporters. Robert Cioffi, director of food and beverage for The Bostonian Hotel in Boston, feels cutting too many corners on chef salaries can be self-defeating to a restaurant that depends on its chef's reputation. Many of Boston's best-known chefs have started at The Bostonian, and the hotel hired Anthony Ambrose from The Meridian Hotel as its executive chef a year ago.

"Our business is dependent on the quality of the food, and, if the chef is excellent, people dine here," notes Cioffi. "The only way to fill the seats in this economic climate is with a star chef. If you don't have a star chef, you don't get the attention and the publicity. Why hire a nobody chef at $60,000 when you can have a star at $85,000 and fill the room? That $25,000 isn't worth it. Either you have to spend the money to build up a nobody or you have to hire a somebody." Besides, he adds, a new chef is "going to ask for the money in a year if he's good—and you'd be a fool not to give it to him."

Unlike independent restaurants, though, hotel dining rooms aren't able to offer equity positions. While a lot of hotels are still pulling in star chefs at $75,000 to $100,000, Pelletier sees a few hotels beginning to lease out their dining rooms to a well-known chef or restaurant in a city. The hotel, he notes, gains from the chef or restaurant's reputation; the chef or restaurant owner saves on opening costs and gets some reasonably sure base business from hotel patrons. Each profits from the other's advertising and reputation. "I wouldn't be surprised to see that happen more," Pelletier says.

Despite their relatively high price, some still feel a name chef is important to a certain type of restaurant.

"A requirement on the part of a major restaurant is the ability to market," says Whiteman. "In this country, marketing requires the establishment of a brand." Only 20 or 30 restaurants have names strong enough to carry them "without the crutch of a personality," he argues.

But that argument only applies to restaurants aiming at a national market, and there aren't that many.

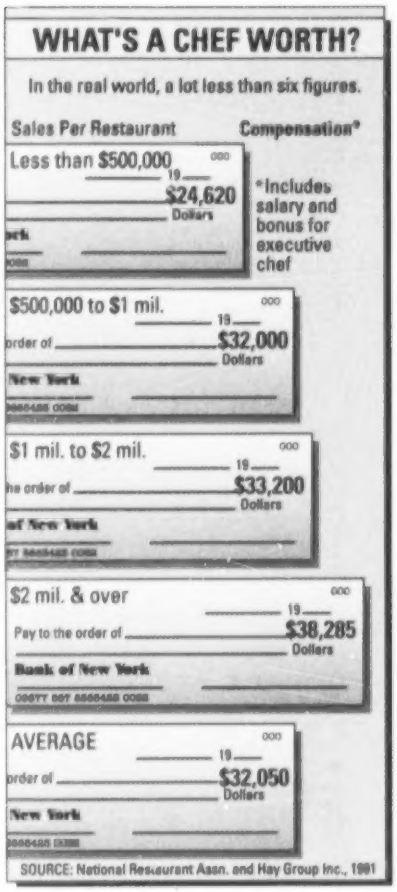
"A restaurant owner wouldn't necessarily need a celebrity chef if his market is the city in which he is located. An owner should be able to market his restaurant to his own city. If he can't do that, to hell with him," says Whiteman.

"But if an owner wants to be on the mind of every visitor, you're talking about marketing nationally. Then a celebrity chef is important. If a traveler sees that chef in an airline magazine story, psychologically he's had his mind made up. He's pre-sold. What does he care what the chef makes?"

The celebrity chef's position is also bolstered by packaged-food companies which are increasingly looking for name chefs to augment their marketing programs, Whiteman notes.

For the smaller hotels, the celebrity chef remains important, says Cioffi of The Bostonian. "Only when our culture gets tired of the star system" will the role of the celebrity chef diminish. "Until then, a celebrity chef is worth the money.

"If top restaurants are dumping their stars, I think ultimately it's going to hurt them. I think it matters that there is a reason to go to a particular restaurant as we come out of this recession," Cioffi adds.



The restaurant industry "won't see the wave of star chefs like we saw in the '80s for a long time," asserts Pelletier. "I don't see the demand from the patrons, and, from the owner's standpoint, the top dollar paid these chefs may not return what was expected."

This trend, he notes, won't hurt the '80s stars, many of whom have established their own restaurants. "But the up-and-coming chefs, the ones who weren't quite there yet, have stagnated. They won't be stars as quickly. There are not as many opportunities today."

A lot of chef activity may backfire on a restaurant, Wolf argues. "If a chef spends a lot of time and energy in appearances, the patrons may begin to wonder who's cooking lunch."

Seppi Renggli, executive chef for the Rockefeller Center restaurants who left The Four Seasons two years ago, feels the economy has reduced the appeal of the celebrity chef. And Renggli, for one, is glad to drop the public appearances and benefits. Says Renggli, "I have to live in peace." **RB**

ICE CREAM & YOGURT

MARKET SEGMENT REPORT

Alternative sources have hurt the segment.

By Carol Casper

Last year was a tough one for the frozen dessert segment. Sales sank for most operators, especially frozen yogurt specialty stores. Business at independent "mom and pop" shops dipped an average of 18% to 22%, according to one industry executive.

Yogurt chains fared slightly better, observes Steve Van Velkinburgh, president of Thousand Oaks, Calif.-based Penguin's Place Inc., but few if any operators were immune to the slump. The word on just about everyone's lips now is shake-out.

"It's much like what happened to super gourmet ice cream in 1984," says Van Velkinburgh. "Individual sales have taken a downturn because so many people have come into the segment and there isn't the volume to support them all. What happened then will happen again with yogurt. The weak will be weeded out, and the strong will survive."

The problem is *not* a decrease in consumption of frozen yogurt. Rather, there has been an overproliferation of frozen yogurt shops, combined with a huge increase in the number of alternative sources for the product.

"You can get [frozen yogurt] now in grocery stores, convenience stores, fast-food restaurants, even self-serve gas stations," comments Patty Reupke, director of marketing for I Can't Believe It's Yogurt, the nation's second largest frozen yogurt chain. "That has cut into everybody's market share, and combined with the recession, made it a tough year."

While sales were generally off for ice cream shops as well in '91, they were not as hard hit as yogurt specialists. In fact, several ice cream chains report same-store sales were only flat or even up slightly.

In part, ice cream retailers have fared better because many have now added frozen yogurt to their mix and are winning back sales lost in recent years to their new competition.

Because they offer more variety, ice cream shops also have broader appeal. About 80% of soft-serve yogurt has traditionally been bought by women, Reupke says. Although I Can't Believe It's Yogurt and other chains are

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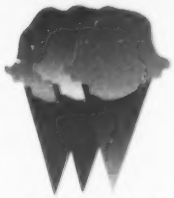
The 40-year-old Tastee Freez chain still offers soft serve and sundaes, but many units now have a fast-food-type menu.



ICE CREAM & YOGURT

MARKET SEGMENT REPORT

C-stores, supermarkets, restaurants, even gas stations sell frozen yogurt.

adding new varieties in hopes of wooing more male customers, a certain segment of the market, particularly young and male, will always tend to stick with ice cream, Van Velkinburgh points out. By offering mixed groups of customers a choice, ice cream shops don't shut anyone out.

In addition, ice cream places have not had to deal with increased competition within their ranks. In fact, the number of ice cream shops has declined steadily over the last few years, shrinking 15% since 1988, according to RE-COUNT figures from Restaurant Consulting Group, Evanston, Ill.

Despite the shop operators' troubles, Americans' appetite for frozen yogurt continues to grow at a good clip. Total sales of the product rose 25% in 1991 to reach well over $2.3 billion, according to data from Find/SVP Inc. That is more than six times the size of the market five years ago, and better than double '88 consumption, the New York-based market research firm reports.

However, since 1988, the number of frozen yogurt and ice cream shops selling the product has also nearly doubled. The rates at which new yogurt stores are opening and ice cream shops are adding yogurt have slowed over the last two years. Even so, the number of shops selling yogurt rose more than 15% in 1991, according to data from Find/SVP and RE-COUNT.

Even more significant, other foodservice outlets including fast-food restaurants and retailers like supermarkets and convenience stores have become aggressive marketers of frozen yogurt, taking a big chunk of business away from the ice cream and yogurt shops.

Figures on market share show that from 1988 to 1991, the proportion of total yogurt sales by frozen yogurt and ice cream shops shrank from 60% to 46%, while the share of other foodservice operators and supermarkets grew. Looking just at foodservice sales, the combined portion by ice cream and yogurt shops shrank from 86% in '88 to less than 70% last year, Find/SVP reports.

Moreover, the decline in market share for yogurt specialty shops was sharper than that of ice cream shops that also sell yogurt. Of total U.S. frozen yogurt sales, yogurt specialists suffered a 10-point loss in market share since '88, compared to for points for ice cream operators.

The future for yogurt specialists is not particularly bright, either, according to Find/SVP's projections. The total frozen yogurt market will continue to grow sharply, reaching over $4 billion by 1996, it predicts. However, the combined share of yogurt and ice cream shops is expected to shrink further, to 40% of the pie. At the same time, the proportion of sales by other foodservice outlets, as well as supermarkets and c-stores, will continue to grow.

New products are coming on the market that make it easier for other types of operations to sell yogurt without special dispensing equipment. One manufacturer, for example, has just introduced a new "soft scoop" product in 3.5-oz. portion-controlled cups. Positioned for kids' menus, take-out, and institutional foodservice, it can be stored at higher temperatures than most ice cream and frozen yogurts, comes in several flavors, and contains active yogurt cultures.

EVOLVING STRATEGIES. What can frozen yogurt operators do to restore their sagging share of this still fertile market? Most chains are in the process of evolving strategies now, the fruits of which will be seen over the next 12 to 24 months. They include new thinking on site selection, product innovation and diversification, alternative avenues of distribution, renewed aggressiveness in marketing campaigns, and a stronger emphasis on brand identity.

One problem for yogurt marketers, comments Yves Coleon, vice president of marketing for Häagen-Dazs, is that they have not made brands identifiable. "People do not recognize the quality of soft-serve frozen yogurt products as much as they do ice cream. It's become a bit of a commodity."

Häagen-Dazs' waffle cone sundae.

"The reality is that the frozen dessert industry—everything that looks like ice cream and frozen yogurt—has been flat on a per-capita consumption basis for a long time," adds Syl Sosnowski, vice president of Carvel. "Yogurt grew mainly by taking sales away from ice cream.

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"Now that there are lots of frozen yogurt shops near each other, and even the fast-food operator, the corner deli, and the supermarket have it, no one will go out of their way for a specific brand, unless it really is something different. In general, the business has become location and convenience."

The problems of the yogurt segment are epitomized by segment leader TCBY Enterprises Inc., Little Rock, Ark., whose difficulties have been well documented recently (See *RB* Cover Story, Jan. 20, 1992.)

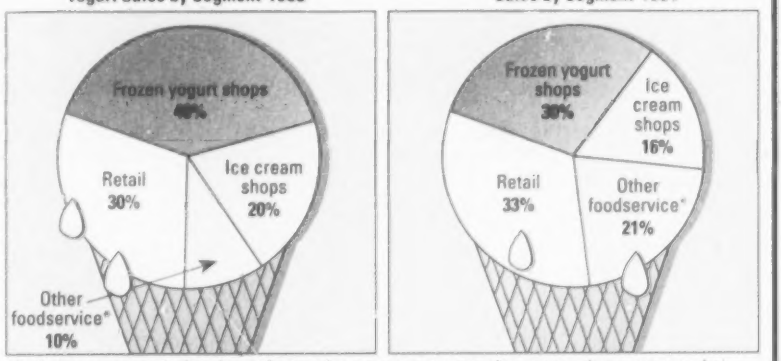
TCBY's same-store sales have fallen precipitously since 1989, from an average of over $230,000 to approximately $185,000 in '91. More than 260 units have closed since 1990. Systemwide sales shrank to $323 million in '91 from $344 million in '90, according to an estimate from Technomic Inc., Chicago.

Corporate revenues were down to $128.9 million in '91 from $151.3 million in each of the prior two years. Earnings shrank to 31¢ a share, or $8 million total, compared to nearly $30 million in '89 and just under $20 million in '90. Reacting to these results, the company's stock has lurched from $29 a share in mid-1990 to $5.50 this past March.

The corporation is now battling lawsuits from investors and franchisees who claim that management misrepresented the company's health before the earnings slide and used inflated sales projections to keep selling new franchises.

TCBY management, headed by chairman and founder Frank Hickingbotham and his son Herren C. Hickingbotham, president, counter that the huge, rapid growth in competition from other sources was a factor they could not have foreseen. Hurting franchisees argue back that the franchisor focused too much attention on growing the system, while ignoring evidence that the changing market was threatening existing stores.

MARKET SHARE SHIFTS


Share of Total U.S. Frozen Yogurt Sales by Segment-1988
Frozen yogurt shops 40%
Ice cream shops 20%
Retail 30%
Other foodservice* 10%
Share of Total U.S. Frozen Yogurt Sales by Segment-1991
Frozen yogurt shops 30%
Ice cream shops 16%
Retail 33%
Other foodservice* 21%

*Includes restaurants that do not feature ice cream or yogurt, plus concessions, supermarket and convenience store soft-serve sales, office cafeterias, etc. SOURCE: Find/SVP Inc.

Restaurant analyst Barry Stouffer of J.C. Bradford & Co., Nashville, Tenn., observes that had it reacted faster, TCBY might have minimized the damage. However, he says, the environment for yogurt operators changed so rapidly that some hardship was inevitable.

In any case, management has now focused attention on the chain's troubles and is exploring ways to rebuild its fortunes. Like a number of other yogurt chains, TCBY is experimenting with new products, including Mrs. Fields cookies and other new menu items on a limited basis. It is too early, though, to talk about results, Stouffer says, or what other directions the chain may eventually take.

The company has also brought in Charles Cocotas, veteran of Church's Fried Chicken and the highly successful young Boston Chicken chain, to take over as president and CEO of TCBY Systems, the subsidiary that finances franchises.

"The jury is still out, not on whether TCBY will survive, but on what its earnings and growth prospects will be three years from now," Stouffer says. "They have a very strong brand name, which at some point they should be able to capitalize on, but if and when their earnings will grow again is hard to say. I don't think, however, that they will disappear. Their brand name is too strong and their product too viable, but clearly they are in a transition stage."

With its more than 1,700 stores still accounting for some 45% of total yogurt units, TCBY's fate will have an enormous effect on the segment.

CASUALTIES. The yogurt giant is not alone in its troubles. In the last couple of years several smaller chains have disappeared. Among the latest casualties is Malibu Franchising Corp., formerly based in E. Windsor, Conn., which operated 100 units primarily in the Northeast. About midway through '91, according to several franchisees, the franchisor cut off contact and apparently closed up shop, leaving a number of units to continue operating on their own.

Another struggling chain is Penguin's Place Inc., an eight-year-old company that achieved early dominance in the California market. Most of its 103 units, down from 125 two years ago, are in California. It also operates a few stores in Hawaii, Colorado, and Florida.

Penguin's filed voluntary Chapter 11 in September. It is now restructuring under the leadership of new president Van Velkinburgh, who formerly worked with Häagen-Dazs and as a consultant.

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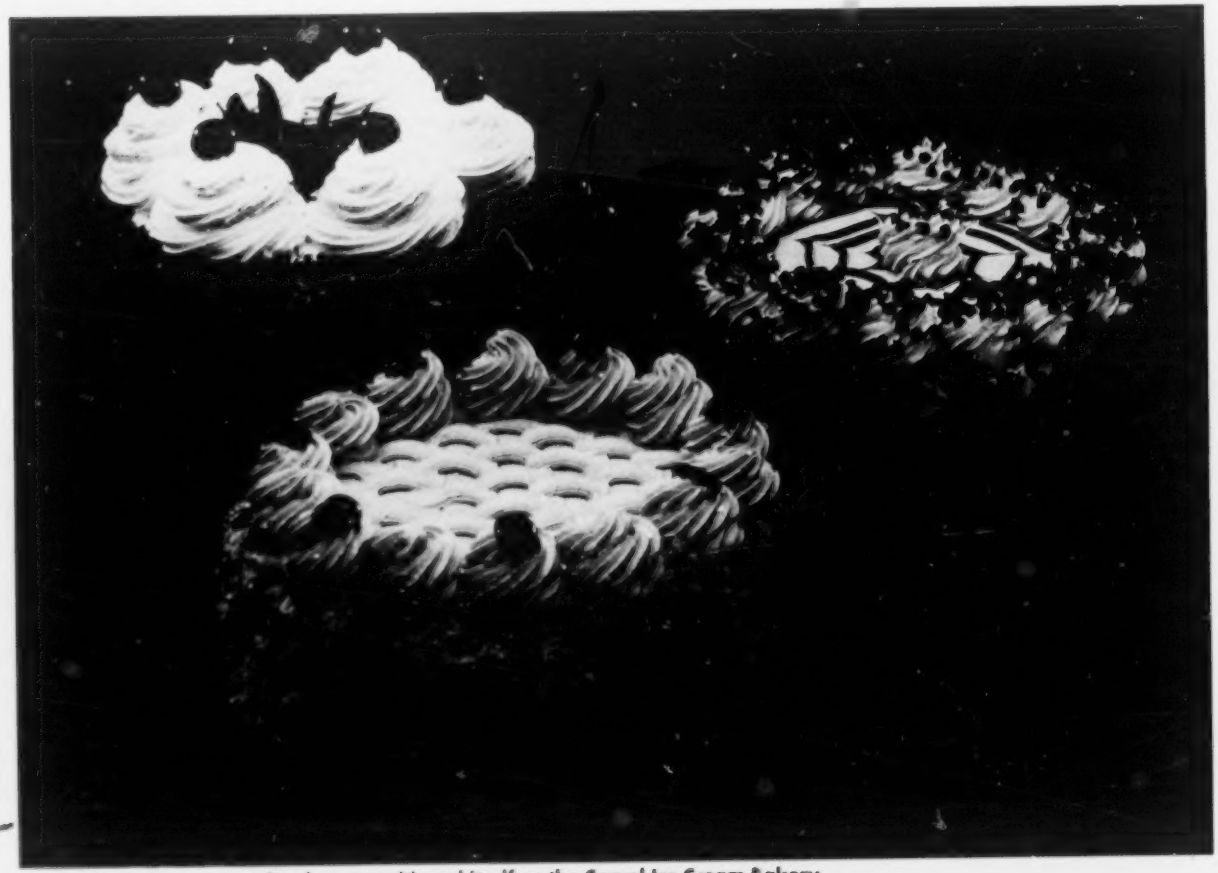
Overproliferation of yogurt shops has also cut into market shares.



The leader in ice cream cakes has repositioned itself as the Carvel Ice Cream Bakery.

Van Velkinburgh is hopeful that the chain will emerge from the present "extreme downturn in the yogurt economy" through the combination of a new locations strategy, broadened product line, and renewed focus on marketing.

"I think there is a real future in the branded franchise concept," he adds. "Although the franchise yogurt community is having problems, independents are going out of business a lot faster."

Management is working with franchisees to formulate new business and marketing plans, but details are not yet in place. However, Van Velkinburgh says, the chain "will build out from its present direction." That means continuing to offer products like gourmet brownies, coffee and cappuccino, a fruit salad lunch plate, and smoothies, all added two years ago. He notes the chain may also add ice cream, a move he expects other yogurt chains will make as well.

Because yogurt has become more of a commodity rather than a destination product, Van Velkinburgh says, Penguin's strategy will also entail shifting to more impulse-driven, high-foot-traffic locations from its current base in neighborhood shopping centers.

STILL PROFITABLE. I Can't Believe It's Yogurt (ICBIY), an affiliate of Dallas-based Brice Foods Inc., has also suffered from the combined effects of recession and proliferating competition. Nevertheless, the company is still profitable, says Reupke.

To maintain aggressive growth, ICBIY has shifted some emphasis to international expansion plus new distribution avenues to supplement its retail shops domestically. Reflecting this, the company recently reorganized its corporate structure and created two new divisions: International, headed by president James H. Amos, and Alternative Distribution, presided over by Daniel Corrigan. Mark Liebel was promoted to president of the Domestic Retailing Division and Daniel Shimer to chief financial officer.

ICBIY has more than 800 shops worldwide including 107 in 16 countries outside the U.S. International expansion accelerated in the last nine months, Reupke says, concentrating on the Caribbean, Pacific Rim, and several European countries.

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The company also built new stores in the U.S. last year and expects to open 50 to 70 more in '92.

In its alternative distribution efforts, ICBIY is targeting its branded product in a wide range of nontraditional sites such as athletic stadiums, airports, employee and hospital cafeterias, and theaters. It already has more than 250 alternative distribution outlets across the country, among them in the headquarters of Ford Motor Co. and in the U.S. State Department. ICBIY's yogurt, in a special 3.5-oz. hard-packed cup, is also served on American Airlines flights.

Another recent development is an agreement with Ann Arbor, Mich.-based Ho-Lee-Chow Inc. to combine take-out and delivery of ICBIY's products along with Chinese food at shared retail outlets. (See *RB* March 1, page 36.) The concept is now under test at an outlet in Dallas. The next step will be retrofitting 125 ICBIY stores to add Ho-Lee-Chow facilities, followed by the addition of yogurt at Ho-Lee-Chow's three existing Michigan stores and up to 16 more to open late this year.

At the shop level, another new avenue of distribution for I Can't Believe It's Yogurt is a kiosk program. The company has thus far filled orders for about 70 kiosks and expects to see 150 in operation before year's end.

It is hoped the program will help boost average store sales, which dipped from $219,000 in '90 to $204,000 in '91.

Late last year the company added a new hand-scooped frozen yogurt which she describes as "virtually identical to premium ice cream in flavor and texture, but with one-half the fat and one-third fewer calories." The product is available in 16 flavors, affording franchisees a wider variety than soft serve typically offers. The scoopable yogurt is targeted to appeal to male consumers, who have held out for the taste and texture of premium ice cream, but still want to reduce fat intake. Those units that have already added the product have bucked sales trends with increases in volume and new customers.

ICBIY also continues to develop new flavors for its 10-calorie-per-ounce Yoglacé product, and has added two new fruit topping choices for its 125-calorie sundae made with the low-cal product. The company is also testing non-yogurt products including a variety of baked goods in a limited number of company and franchised stores, and may experiment with a lunch program.

Other projects are in the works to help franchisees offset seasonal slumps. "We've gone to a highly promotion-based marketing program, but with an emphasis on value-added presentations that don't involve deep discounting," she says. In January it ran a "Cabin Fever Reliever" promotion in which every customer who came to the store received a three-month color calendar featuring time-dated coupons. A "Yoglacé Olé" promotion this spring, featuring new flavors Margarita and Sangria, offers a certificate for two free Jazzercise classes.

Sales of frozen yogurt rose to over $2.3 billion.

The strategy at Zack's Famous Frozen Yogurt, Winston-Salem, N.C., is to retool as an "expanded dessert concept" or "desserterie," says Jim Fogleman, who joined as chief financial officer in mid-1990 and became president last October. This will entail the addition of European-style bakery products and other new items in hopes of attracting a wider audience and boosting store volumes.

Zack's is a much smaller company than it once was, he adds. Before it was acquired by its largest franchisee in March 1990, Zack's had operated more than 200 units including 140 in the U.S. and 40 in Canada. Today it has just 87 stores in 20 states concentrated in the Southeast, plus three in Hong Kong and six in Japan. Same-store sales were down an average of 10%-20% last year, and systemwide sales were just $12.5 million compared to $20 million two years ago. "However," Fogleman says, "the shaking down has left us stronger as a company."

Zack's introduced new products this spring, including dip ice cream and European-style gourmet desserts like a cake made with seven different kinds of chocolate and an upscale carrot cake. "We've had some bakery items before," Fogleman says, "but they were limited to cookies. The new desserts are quite an advancement. We've done some test marketing and the response has been very positive." The stores will also add gourmet coffees to complement the dessert line.

Zack's plans for franchisees to market these items beyond the stores, too. "Besides selling them by the slice, we'll

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TOP FIVE ICE CREAM AND YOGURT CHAINS

	1991 U.S. Sales (Millions)	1991 U.S. Units
Dairy Queen	$2,105	4,712**
Friendly Restaurants	519	780
Baskin-Robbins	510	2,293**
TCBY	323	1,728
Carvel	582	139

*Technomic estimate
**Company figure

have cakes and pies available whole to take home for dinner parties or business meetings, and a coffee program.

Despite yogurt's healthful image, he adds, he feels there is a demand for less health-oriented, somewhat more indulgent frozen yogurt products. In response, the company introduced a gourmet yogurt last year with 4% milkfat, in flavors like cappuccino and Bavarian chocolate, as an alternative to its 2% low-fat product. To complement its nonfat sugar-free product, Zack's also added a nonfat but sugar-sweetened variety.

About one-third of units now offer the Zmoothie, a 20-oz. frozen yogurt drink aimed at health-conscious consumers. Designed to double as a breakfast, lunch, or light dinner, Zmoothies are 20-oz. concoctions made with frozen yogurt, fresh fruits and fruit juices, milk protein, amino acids, and complex carbohydrates, and come in varieties ranging from 200 to over 800 calories for body builders.

Zack's is also testing alternative distribution sites for its branded product, including sports facilities, college campuses, and hospitals. Another area it is exploring is production of hard-pack frozen yogurt to be marketed through regional supermarket chains.

PHOTO BY MATTHEW P. SPANGLER

Everything Yogurt has offered an expanded menu from the beginning.

Two yogurt companies that outperformed the segment last year were Everything Yogurt, based in Staten Island, N.Y., and Freshens, a low-profile company based in Atlanta. Each has profited by anticipating strategies other chains are now jumping on: menu diversification and high-traffic locations geared to impulse purchasing by a captive audience.

"In 1991 we had the best year in the company's history," states Richard Nicotra, chairman and CEO of Everything Yogurt. To gear up for the challenge, the firm strengthened its management team over the last two years, bringing in Tom Romano, formerly president of Gino's Restaurant Division, as chief operating officer. Other additions include new vice presidents of marketing and operations, and other staff to beef up franchise support.

SLOWER GROWTH. The company, now at 350 units, also took a slower approach to growth than other chains, picking locations carefully and negotiating more conservatively on rents, Nicotra comments.

Perhaps the key difference, though, is that it offered an expanded menu from the start featuring entree salads. "That has been important to our positioning for the '90s. You can't make it anymore as a yogurt-only operator. What worked in the '70s and '80s won't work in the '90s," Nicotra says. "The days of building yogurt stores in strip centers and expecting a family to get in the car and drive to you are gone. We've always been positioned as a place where you can get a meal and have dessert."

To emphasize this difference, the company has changed the name of new stores to Everything Yogurt & Salad Cafe, and is gradually converting older units to the new identity. The 29 Cafes are running at an annualized rate of over $500,000, compared to $400,000 or below for older stores.

"We haven't changed the basic menu, but we're a little more clear now about what our goal is. Actually we've simplified it somewhat and targeted it better to what customers want, and value. We're doing what Taco Bell has done, but with healthy food. We're giving customers more salad than they can finish for less than they thought they would pay." The company is also testing some new products such as a grilled chicken breast sandwich.

Downtown stores do about 60% of sales in salad and 40% in yogurt, while mall locations average the reverse, Nicotra says.

Shops typically offer nine yogurt flavors with an emphasis on nonfat varieties including some sugar-free, plus low-fat alternatives. This spring the company also introduced a new product, the Cyclone—a blended yogurt concoction with a choice of 21 mix-ins. The company is testing hard-pack frozen yogurt, too.

Everything Yogurt is also stepping up promotional activities. The chain's

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Virtually all chains have expanded menus beyond more than one product.

Novelties like these Tiny Toon Adventures ice cream bars are playing a bigger role in Baskin-Robbins' sales.

product is now sold at Universal Studios in Hollywood and in conjunction it has six promotions scheduled with the movie studio this year. It celebrated its Sweet 16th Birthday with a party at Universal Studios in March.

"We were the first frozen yogurt chain in the country and we've seen a number of booms and lulls since we started the whole thing in 1976," Nicotra adds. "This 'cleaning out' time will go on for a couple of years, probably. But companies that have clear-cut marketing goals and a defined concept will still be here in '94, and will make it to the year 2000.

Also still going strong, Freshens has quietly grown to 220 units since December '85, when the first two stores—one in Louisville, Ky., and one in Atlanta—were launched by father-and-son team Richard and John Stern.

A crucial step for the company was its decision about three years ago to concentrate expansion on high-traffic, captive audience venues where it could rely mainly on impulse purchases, notes Ed Redmond, vice president marketing. Today 175 stores are in enclosed malls, including all but two of 41 opened in '91, and most of 66 launched in 1990.

For '92 the company projects about 25 new units. The emphasis is on franchised growth but Freshens may also add to its nine company stores.

Although mall traffic and sales were down sharply last year, Freshens same-store sales remained very close to 1990's and this year have been trending up, Redmond says. The chain's systemwide volume hit $44 million in '91.

Along with concentrating on malls, Freshens has modified its store designs to capture smaller spaces. It is exploring nontraditional sites, too, such as airports and college campuses. Three years ago, it began developing kiosk units in malls as an alternative to food court and in-line stores, and in the last year has created a new, high-tech modular design that requires only a 12-ft. circle of space. It can be delivered on a truck and installed in less than 24 hours, Redmond says. The company is also working on a smaller modular design that can be plugged into combo operations with other concepts like cookie or sub shops. The firm has already been approached by several potential partners to discuss such tandem operations, he says.

Freshens features an ultrapremium product designed to fill an upscale niche. Its name plays on its use of 100% natural ingredients. It offers franchisees a choice of 40 flavors, typically rotated with stores featuring an average of six to eight at a time. They include three lines: its original 3% lowfat product, a nonfat version, and sugar-free nonfat introduced in 1990.

The shops also feature a bar of 35 toppings. They include an exclusive line of "cookie cake crumbles" made from gourmet cakes like toffee pecan

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fluff and raspberry currant coconut.

Freshens stores sell just yogurt except for one new product added late last year, a frozen carbonated beverage aimed at kids. "We've gotten very aggressive about going after every opportunity to sell," Redmond adds. "We market very heavily to mall employees and provide custom push-carts for shotgun sampling. We have a marketing calendar that tells managers what they should be focusing on each month and we help them join in mall promotions."

Ice cream operators for the most part have been spared the major trauma that has befallen many yogurt operators. However, it was not a year in which anyone "set the world on fire," says Gary See, vice president of marketing at Minneapolis-based International Dairy Queen.

A traditional favorite, Dairy Queen is the predominant ice cream chain in the U.S. Its 4,712 domestic franchised stores generated slightly over $2.1 billion sales in 1991, by Technomic estimate. It also operates 59 Treat Centers in malls. They combine Dairy Queen with either or both Orange Julius and Karmelkorn drink and snack concepts.

Acquisition and conversion of 110 Druthers restaurants, located mainly in Kentucky and Tennessee, helped the chain achieve its 18th year of consecutive growth, although the increase was not large. "Given the depth of the recession, and how poorly others have fared, the fact that we held our own was a gain," See comments.

"Dairy Queen has always been pretty much recession-proof," he adds. "And in tough times, I think, people have a tendency to go back to things they grew up with."

International Dairy Queen is focusing more efforts than ever before on markets outside the U.S. Its biggest is Canada, with 423 units, followed by Japan with 116. It operates about 60 more stores including some Treat Centers in a total of 15 other countries. Its first unit in China opened this spring. The chain had no major new product additions in '91, but does plan to debut a new novelty this year to complement its caramel nut bar, added in 1990.

It also added a second size to its Breeze, a blended product similar to the ice cream Blizzard, but made with vanilla nonfat yogurt combined with fruits or candy. About 65% of IDQ's stores have added yogurt over the past couple of years.

"Yogurt sales have pretty much stabilized, running at about 8%-10% of dessert sales or 1%-5% of total store volumes," See says.

NEW CAKES. Another emphasis has been on upgrading its ice cream cakes and promoting new varieties as "cakes for any time, not just special occasions."

IDQ's Brazier stores, which offer a full food menu, also rolled out a Treat Meal for kids. It includes a choice of hamburger, cheeseburger, hot dog, or chicken nuggets, fries, small drink, and Dilly Bar, ice cream sandwich, or small cone for dessert, plus a premium.

Just over 75% of IDQ's units offer the full fast-food menu—up slightly from last year—while 1,088 are still classified as soft serve only.

A sort of smaller cousin to Dairy Queen is Tastee Freez International, based in Utica, Mich. Like its larger competitor, Tastee Freez is putting greater emphasis on full-menu stores that offer fast food as well as ice cream. At these units, which account for about half its system, ice cream and other frozen desserts contribute around 45% of sales.

Over the last three years, the 40-year-old chain has shrunk from 400 to about 340 locations, primarily through attrition of older stores, president Jim Brasier says. Only about 20% of remaining units are of the original walk-up, soft-serve-only format. The company is now working on a downsized prototype that would offer ice cream and a limited fast-food menu in a walk-up/drive-thru format. It hopes this will become an additional vehicle for expansion.

"We will still build our full-scale family restaurants. But the new prototype, at only about 750 sq. ft., will require a total investment of only about $230,000 to $250,000, compared to nearly $500,000 for a full-size, full-menu unit," he points out.

Tastee Freez hopes to open a total of 10 stores in '92.

Some Tastee Freez units have added nonfat frozen yogurt in the last two years, primarily in metropolitan areas and on a regional basis. "We've made attempts in rural markets, but with less than anticipated success," Brasier says. "Our soft serve has always been 97.75% fat-free, so it actually contains less fat than many standard frozen yogurts."

Tastee Freez also offers gourmet dipped ice cream, made in-store, in all new units and in some older ones.

The company is looking at nontraditional distribution outlets, as well. It has franchised Tastee Freez sections in five Love's Country Stores and anticipates expanding this program with the

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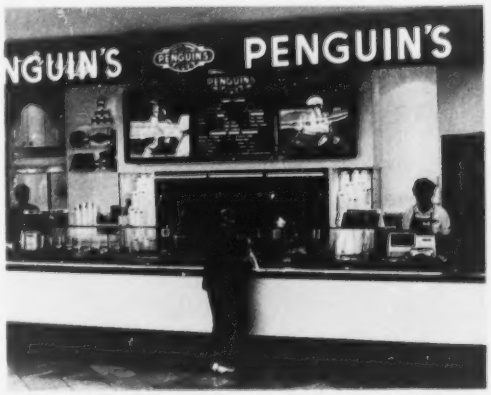

Penguin's Place is adding new products and sites.

Ice cream retailers have also added frozen yogurt to their menu mix.

The number of ice cream shops declined 15% since 1988.

e-store chain, as well as others.

New for the company this summer will be some time-based promotions on the food side of the menu, offering variations on its "big country burger" with international toppings. The company's marketing theme for '92 is: "The hottest cool around." It is designed to play up the availability of its hot menu in addition to its cold desserts.

Friendly Restaurants, Wilbraham, Mass., does not release sales figures. Director of marketing Jack Luttrell describes its results in 1991 as "good," and said the outlook for 1992 is also positive. Technomic, however, estimates that the company probably suffered some decrease in sales.

Since its acquisition three years ago by Tennessee Restaurant Co., which also owns Perkins Family Restaurants, the formerly public company has become reluctant to release information.

Friendly operates 790 company-owned units in 15 states, with the majority concentrated in New England, primarily in Massachusetts. Although sales of frozen desserts, including ice cream cones and cups, frozen yogurt, ice cream cakes, and novelties like prepackaged sundaes make up a significant portion of sales, the company has for some time emphasized the food portion of its menu in its marketing.

One of the main promotional efforts by the full-service family restaurant chain for the last few years has been offers of free sundaes with various meal purchases. It has recently been updating units with a new decor package.

On the ice cream side, the company has been focusing much of its attention in recent years on increasing sales of retail product through supermarkets.

For Glendale, Calif.-based Baskin-Robbins, the emphasis continues on variety, to "provide something for everyone," says Marilyn Novak, director of market services. Light, low-fat products are still growing in popularity, she points out, as "more people become aware that there are options."

The company added new flavors to its "Lighter Side" ice cream, which is 93% fat-free, including pineapple cheesecake and jamoca swirl. It also offers a 97% fat-free and sugar-free product in new flavors like chunky banana and pineapple coconut.

About two-thirds of its stores also offer soft-serve yogurt in low-fat and nonfat varieties, plus a sorbet.

Yogurt is more popular on the coasts and in major cities, but it is still growing," Novak says. Novelties are also playing a bigger role in sales. Chilly Burger ice cream sandwiches, introduced early last year, are available prepackaged in some flavors while others can be made fresh to order in the stores. In addition, Baskin-Robbins offers sundae bars, "light" bars, and this year introduced its first licensed novelty: four Tiny Toon Adventures ice cream bars for children.

The chain grew by nearly 100 stores in '91, to 3,413 units. Most expansion was in international markets, which now comprise 1,120 units, but it is still filling in some U.S. locations as well. It also just launched a new bakery concept called Bon Doux, as a Baskin-Robbins subsidiary. The store offers fresh-baked breads, pastries, and cakes, and a full Baskin-Robbins ice cream menu. The new concept is a joint venture between Baskin-Robbins Inc. and Seoul, Korea-based Shaney Inc.

Another stalwart chain is going into the bakery business. Carvel, characterized last year as a "sleeping giant," has awakened from its slumber and is using a marketing strategy formulated last year to transform the chain into a new entity known as Carvel Ice Cream Bakery. The plan grew out of management's conviction, notes vice president Sosnowski, that to compete in the frozen dessert segment today a company needs a very strong consumer identity and clear point of difference.

"Our research shows that in consumers' minds in the Northeast and Southeast we're the leader in ice cream cakes. That is our point of difference, which we'll continue to push forward with our new identity. It does not mean abandoning our fountain items, cones, and cups, but it gives us a special identity to focus on.

"We see ourselves in the dessert business," he adds, "not ice cream and yogurt. We present customers with a real reason to come to our store, because you can't get good ice cream

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Ben & Jerry's is known for its socially conscious approach to business.

cakes everywhere, and we make all of ours fresh in-store."

The company's new logo signage, touting its bakery identity, is now up in more than 50% of units. The franchisor hopes to approach 75% by mid-year.

"For a system that has never really had any program to remodel stores since its inception, it has been very gratifying to see the positive response from our franchisees," Sosnowski says.

In 1991, Carvel focused efforts on transitional marketing and advertising featuring cakes and novelties, including a new line of "very upscale ice cream cakes that look like something you might buy in a gourmet bakery," Sosnowski claims. They include varieties like Cappuccino Coffee Cake and Sinfully Chocolate Fudge, and are marketed as everyday after-dinner desserts, rather than being geared to holiday and birthday celebrations.

This year the company debuted ice cream-filled cannolis. They will be joined before June by additional bakery-type products like tartufos, fruit-flavored swirl cakes, and baked Alaska. At the same time the company will launch its first major advertising campaign featuring its new image.

About 75 Carvel stores closed last year, mostly older, dated units, some of which relocated because trade areas changed. The chain also built 23 units with the new store design, bringing its total system to just under 600. It hopes to open up to 75 new units this year, fewer than 10 of them relocations.

Average per-store sales rose slightly, Sosnowski adds. Gallon sales of mix were down a bit, but dollars rose due to the shift in strategy to focus on cakes instead of low-ticket cones and cups.

Bresler's Industries, Des Plaines, Ill.-based operator of 10 company-owned and about 250 franchised units in 30 states, is exploring new product additions to help boost sales. "We had a difficult market in '91, very competitive, and same-store sales remained rather flat," says director of marketing Mike Rapaport. Systemwide sales were about $43 million.

The company dropped a nonfat, no-cholesterol frozen dessert that yielded less than satisfactory results and is now bringing out a low-fat, sugar-free dipped product with 4% butterfat. Bresler's also markets two yogurt varieties, regular and nonfat sugar-free. They account for about 35% of frozen dessert sales.

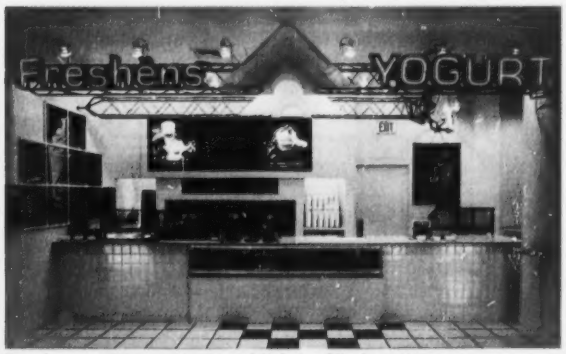
To build volume, the company recently approved baked-off cookies and some other snack items as optional additions.

About two-thirds of stores are located in enclosed malls, where most expansion will be focused for the near future. The company plans to open about 25 U.S. units in '92.

Bresler's is also taking its first international step, with a store in Saudi Arabia scheduled to open this summer. It hopes to build at least a dozen more units overseas in the next few years.

Outside the stores, Bresler's sells its yogurt at snack counters in Sam's Wholesale Stores, a warehouse chain.

Bresler's also owns Larry's Ice Cream & Yogurt, a 40-unit chain in Florida, acquired in October 1990. The two store's product lines are similar, but Larry's has more of a parlor atmosphere, with eat-in purchases served in glassware.



Freshens concentrates on high-traffic locations.

Rapaport feels '92 will shape up as another tough fight for market share, particularly against the growing variety and convenience provided by supermarket freezer cases, compounded by the recession.

Low- and no-fat frozen products are proliferating.

SUPERPREMIUM. At the superpremium end of the market, Häagen-Dazs continues to grow its network of shops both in the U.S. and abroad. Häagen-Dazs is a subsidiary of Grand Metropolitan PLC, an international food, drink, and retailing conglomerate with annual sales in excess of $17 billion. Häagen-Dazs' worldwide sales accounted for approximately $500 million of that volume in '91, including product sold through supermarkets and other retailers.

The ice cream chain's own shops contributed about 8% of its sales. There are now 246 U.S. stores in 28 states plus Washington, D.C. and Puerto Rico. It also has 60 units outside the U.S. distributed about equally between Europe and Japan. The firm expects to add 16 U.S. sites in '92 and about 20 overseas.

Häagen-Dazs' emphasis this year, according to vice president of marketing Coleon, is to unify its brand across all channels of distribution. "Over the years we had developed two different identities, one in our retail stores and another for packaged goods," he explains. At the shop level, the program involves introduction of a new store design featuring its unified logo and signage, and a modernized decor package. Since April '91, 30 existing stores have been updated, and all new stores feature the design.

Häagen-Dazs also introduced a couple of products in '91: a nonfat soft-serve frozen yogurt to complement its low-fat, hard-pack yogurt, and a new ice cream flavor, toffee coffee crunch.

The two yogurt varieties account for about 15% of store sales. The shops also sell ice cream cakes, novelties, and pints, but 75% of sales are ice cream

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cones or cups. Same-store sales rose by about 3% last year.

Häagen-Dazs also sells its branded product through alternate distribution channels including other foodservice, but its emphasis is on building the shop system and bringing new customers into the stores, Coleon says.

"We're trying to raise our profile at the local community level through a strong program of local marketing and special event advertising. Our brand equity is strong, but we need to do a better job marketing the shops," he comments. With most stores still concentrated in New York, Los Angeles, and Miami, the company has a lot of room to broaden its base. Upcoming focus points may include San Francisco, Chicago, and Minneapolis.

Another superpremium operator with a strong brand identity is Ben & Jerry's Homemade, Inc., Waterbury, Vt. The company may be equally well known for its socially conscious approach to business and the counterculture backgrounds of its founders, Ben Cohen and Jerry Greenfield, as for its highly regarded "Vermont's finest all natural ice cream."

SUPERMARKET SCOOP. Ben & Jerry's chain of four company-owned and 86 franchised stores contributed only between 5%-10% of sales in '91 as the company continued to focus more attention on national distribution through supermarkets. That growing business helped push total volume to almost $97 million in '91 from $77 million in '90.

Although most store sales were up in '91, the company has a freeze on new franchise contracts except for special franchise situations that reflect its social mission, says spokesman Rob Michalak. There are three such stores, such as one in Baltimore run by an organization called People Encouraging People. It employs developmentally disabled individuals re-entering the community from institutions. Another scheduled to open this year in New York's Harlem will employ homeless shelter residents that show motivation, with profits going to help the community.

Existing franchisees with multi-store contracts may also add some units, but the company's intent as far as its scoop shops will be to fortify its franchise program before resuming any new franchise drive, Michalak says.

Although the ice cream/yogurt segment is going through a shakeout, the future for those chains that survive will be a bright one. Americans still scream for ice cream—and frozen yogurt. **RB**

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